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## Agenda Item 4a

May 16, 2011

### TO: MEMBERS OF THE INVESTMENT COMMITTEE

- I. **SUBJECT:** Asset Allocation Implementation –  
Interim Asset Allocation Targets
- II. **PROGRAM:** Asset Allocation / Risk Management
- III. **RECOMMENDATION:** Staff recommends approval of quarterly interim policy targets (Attachment 1) for implementation of the new Strategic Asset Allocation and calculation of Total Fund Policy Benchmark.

#### IV. **ANALYSIS:**

In December 2010, the Committee approved the new Asset Classification and Strategic Asset Allocation Policy Targets and Ranges. The Statement of Investment Policy for Asset Allocation incorporating these changes was approved by Policy Subcommittee in April 2011. The new Policy Targets and Ranges will be effective July 1, 2011 for the purpose of implementation and performance measurement. The implementation of the new policy targets primarily involves:

- a. Increasing Inflation assets (Inflation-Linked Bonds [ILBs] and Commodities) from the current actual allocation of 1.8% to the new target of 4% in the fourth quarter (Q4) 2011. The target Commodities allocation will be 1% over all periods.
- b. Increasing the cash allocation from 1.2% actual to the new target of 4% for Liquidity (Treasury Bonds and Cash) in Q3 2011.
- c. Increasing the Infrastructure/Forestland allocation from 1.2% actual to the new target of 3% by Q3 2012 with an interim target of 2% from Q1 2011. The target Forestland allocation will be 1% over all periods which is close to the current allocation..
- d. Decreasing the Global Fixed Income allocation from 21% actual to the new target of 16% in Q3 2012 with interim targets of 18% and 17% as funds are gradually transferred to the above asset classes.

According to this implementation plan, the new strategic policy targets are expected to be applicable in Q3 2012 and actual allocations should be at target or within approved ranges. Staff believes the interim quarterly asset allocation targets allow for the prudent implementation of the new targets and proper benchmarking of the Total Fund Returns in this period.

Opinion letters from Wilshire and Meketa are included as Attachments 2 and 3.

**V. STRATEGIC PLAN:**

This item addresses Strategic Plan Goals VIII, manage the risk and volatility of assets and liabilities to ensure sufficient funds are available, first, to pay benefits and second, to minimize and stabilize contributions; and IX, achieve long-term, sustainable, risk adjusted returns.

**VI. RESULTS/COSTS:**

Approval of the interim policy targets would result in some transaction costs, though these costs are expected to be small relative to the benefits.

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Asset Allocation

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